

# Trade war: why "we shouldn't get too excited" about the suspension of US-China tariffs

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Although the announcement of an agreement between the US and China was well received by the markets, uncertainty remains, according to Marcos Carias, our North America economist, in this interview for French newspaper Le Figaro on 12 May.

The announcement was eagerly anticipated by the markets. On Monday, the United States and China announced in a joint statement that they had agreed to suspend the punitive tariffs imposed in recent weeks. In concrete terms, by 14 May, Washington will reduce its tariffs to 30% and Beijing to 10%, according to US Trade Representative Jamieson Greer. This represents a reduction of 115 percentage points.

While this signals an easing of tensions between the two superpowers, Marcos Carias, economist for North America at Coface, remains cautious about the consequences of this agreement. Without it, the economic repercussions of escalating trade tensions would have become unmanageable. But *'nothing concrete has come out of this trade war, just a return to the pre-April 2<sup>nd</sup> status quo.'*

**With the United States announcing that it will reduce its tariffs to 30% (from 145%) and China to 10% (from 125%), what is the situation today?**

This is a return to the status quo, in other words, to the situation that prevailed before 'Liberation Day', i.e. the speech given by Donald Trump on 2 April 2025 announcing the new customs trade policy. However, uncertainty remains on how permanent this truce will be.

**Should we welcome this easing of tensions?**

This is a greater de-escalation than expected, as Donald Trump had mentioned an 80% tariff on China as a result of these negotiations, and the US delegation's goal was to reduce the tariffs imposed on China to below 60%. Nevertheless, we should not get too excited, as this is only a 90-day suspension, which is more of a ceasefire than a declaration of peace. Anything can happen, as the two countries have a complicated relationship. There is no guarantee of lasting peace, especially given the fluid nature of trade negotiations over the last 3 months.

I would be cautious about reading too much into the initial market response.

**What are the reasons behind this agreement?**

Both powers knew that by keeping tariffs at prohibitive levels, they would lose control. The US economy posted some strange figures in the first quarter that were difficult to interpret, with GDP falling by 0.3% and a sharp increase in imports (+9.3%) as companies sought to stockpile goods before they are tarified . We would have found ourselves in a situation similar to the supply chain crisis in the United States during Covid. These economic outcomes have political consequences for both governments, and we know macroeconomic mismanagement can be kryptonite for any incumbent.

**Is there a winner and a loser in this decision to suspend punitive tariffs?**

If we compare the situation in which the two countries found themselves (tariffs of 145% for the United States and 125% for China), both countries are winners. The US gets to back down on a set of tariffs that Scott Bessent himself described as “unsustainable”. As for China, this agreement helps avoid an immediate revenue shock and validates retaliation as a negotiating tool. . Responding so firmly to Trump's trade policy by imposing 125% tariffs on US imports seems like a rather successful gamble for China.

### **Who was most likely to benefit from this trade war?**

I think that politically, the US government had the most to lose. The consequences for the economy are not easy to calculate, but from a political point of view, a deterioration in the quality of life of the population can have a major impact on elections. China, on the other hand, would have experienced economic disruption, but probably with less impact on the party's grip on power.

### **Ultimately, what benefits did the US gain from this trade war with China?**

It's difficult to see for the moment what the US has gotten out of imposing then removing all these tariffs, but that could change as negotiations progress. Maybe China will commit to efforts to curb Fentanyl traffic that would not have been on the table absent the recent hostilities. That question is ultimately unanswerable, as the two sides apparently weren't really talking to each other before recent weeks.